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AZ CORP COMMISSION
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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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IN THE MATTER OF QWEST
CORPORATION'S FILING OF
AMENDED PRICE REGULATION PLAN

Docket No: T-01051B-03-0454

Docket No. T-00000D-00-0672

**WORLDCOM'S SUPPLEMENTAL RESPONSE TO QWEST
CORPORATION'S APPLICATION FOR
REHEARING OF DECISION NO. 66772**

The question before the Arizona Corporation Commission (the "Commission") is whether Qwest should continue to reduce access charges and apply a productivity adjustment to other rates during an interim period between the end of the initial three-year term of the price cap plan and the approval of a new price cap plan or the completion of a traditional rate case. The current price cap plan had contemplated that Qwest would make a filing nine months prior to the end of the initial three-year term so that the Commission could rule on a new or extended plan before the initial three-year term ended. As a result, no interim or, "gap" period would arise. At its February 10, 2004 Open Meeting, the

1 Commission, faced with an emergency situation in which it could not approve a new plan
2 by April 1, 2004, took decisive action to continue the productivity adjustment and access
3 charge reduction during an interim period while it conducted a complete review of
4 Qwest's rates and modified price cap plan. (ACC Decision No. 66772).

5 On March 8, 2004, WorldCom, Inc., on behalf of its operating affiliates ("MCI"),
6 filed a Response to Qwest's Application for Rehearing on ACC Decision No. 66772,
7 which supported the Commission's access charge decision. That response is incorporated
8 by reference as MCI's response requested by the April 6, 2004 Procedural Order.

9 The March 8, 2004, response filed by MCI made three points.

- 10 1. The price cap plan language supports an additional access charge reduction
11 because it specifically states that further reductions in intrastate switched
12 access service would occur during any subsequent term of the price cap plan.
13 Even Mr. Shooshan, the current Qwest witness and former Staff witness,
14 made it clear that future access charge reductions is "where we're headed" if
15 the settlement is approved.
- 16 2. Substantial evidence supports an access charge reduction. Qwest and Staff
17 testimony filed in the access charge case, which has been consolidated with
18 the price cap case, demonstrates that access charges are well above cost.
- 19 3. MCI provided a detailed history of access charge proceedings and policies
20 supporting an additional access charge reduction.
21

22 MCI briefly supplements its March 8 response to address issues raised by RUCO
23 after MCI filed its Response.

24 In its April 5, 2004 Response to Qwest's Application for Rehearing, RUCO argues
25 that the additional \$5 million access reduction is inconsistent with the Commission's
26

1 statements in Decision No. 63487, in which it stated that it did not want to grant any
2 further access reductions until it could weigh broader public policy issues. What RUCO
3 fails to note is that, since Decision No. 63487, there have been significant new events
4 impacting those public policy issues. First, Qwest has been allowed into the long-distance
5 market and given 271 approval thereby making price squeeze issues, imputation issues,
6 and access reform even more important. Second, there have been continued delays in the
7 Commission's access proceedings. Third, the Commission is faced with this emergency,
8 interim situation due to Qwest's inability to provide adequate information in a timely
9 fashion. These significant changed circumstances support Decision No. 66772.

10 RUCO also maintains that access rates cannot be adjusted without a fair value rate
11 base finding. First, RUCO's position is inconsistent. RUCO believes that rates can be
12 adjusted using the productivity factor without a new fair value finding. RUCO argues that
13 the fair value finding in Decision 63487 is still valid for the productivity adjustment, but
14 maintains that the same fair value finding is not valid for an additional access charge
15 reduction. Second, the interim access charge reduction can be revenue neutral or subject
16 to a true-up thereby mooting any *Scates* issues. It should be noted that the access charge
17 reductions during the initial three-year term of the price cap plan were revenue neutral
18 because they were offset by an increase in the basket three cap. A similar \$5 million
19 increase in the basket three cap during this interim period would also result in a revenue
20 neutral adjustment. The Commission can also make the new access reduction subject to a
21 true-up. Third, the new access charge reduction does not run afoul of *Scates* because it is
22 an interim response to an emergency situation. *Scates* allows interim rate adjustments in
23 emergency situations pending the completion of a full rate review. While the emergency
24 situation referenced in *Scates* and discussed in detail in Arizona Attorney General Opinion
25
26

71-17 address an increase, not a decrease, in rates, the interim rate concept from those
authorities is useful here.¹

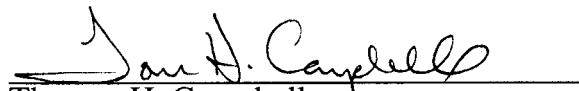
CONCLUSION

The Commission's decision to reduce access charges by \$5 million is a reasonable
response in this interim period, is supported by the record, and is good public policy.

Qwest's Application should be denied and Decision 66772 should be upheld.

RESPECTFULLY SUBMITTED this 16th day April, 2004.

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¹ The bond requirement referenced in *Scates* is effectively dealt with here by a true-up.

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